

D57-8,22-57  
COPY 1 OF 9

November 24, 1959

To: Contracting Officer, SP-1915

Subject: Redetermination of Contract Price  
for Section C of Contract SP-1915

1. The final price of \$1,297,000.00 was agreed to on this date with respect to Section C of Contract SP-1915. This price took into consideration the transfer to Contract DK-3559 of a purchase order to Crucible Steel Company of America in the amount of \$10,000.00, which was included in "Outstanding Commitments" of \$10,650.00 in the Final Cost Statement sent you per my letter of 29 September 1959.
2. The above final price of \$1,297,000.00 for Section C results in a net decrease in the contract price of Contract SP-1915 in the amount of \$14,807.00, determined as follows:

Total Price per Contract as Amended is	\$3,390,213.00
Negotiated Price Sections A & B	\$2,078,406.
Negotiated Price Section C	<u>1,297,000.</u> <u>3,375,406.00</u>
Net Reduction in Contract Price	<u>\$ 14,807.00</u>

3. If the above is in accord with your understanding will you please, at your earliest convenience, issue an amendment to the contract to reflect the above final price of \$3,375,406.00. Also, your authorization to transfer the \$10,000.00 Crucible Steel commitment to Contract DK-3559 will be appreciated.

Very truly yours,

*Hal*  
Hal

cc: 

STAT

SP-1915 (Prof)

DOCUMENT NO. 107  
 NO CHANGE IN CLASS. ☐  
☐ DECLASSIFIED  
 CLASS. CHANGED TO: TS 6  
 NEXT REVIEW DATE: 2011  
 AUTH: HR 7-2  
 DATE: 25/6/81 REVIEWER: 008632

Nov 28 12 06 PM '59

CONTAINS SENSITIVE  
COMMITMENT

To: HAZEL  
11-30-59

DOCUMENT NO. 188  
 NO CHANGE IN CLASS. ☐ 25 November 1959  
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 AUTH: HR 78-2  
 DATE: 15/6/8 REVIEWER: 008632

## MEMORANDUM FOR THE RECORD

SUBJECT: Negotiation, Contract No. SP-1915

TO: Audit Liaison Officer

CONTAINS SENSITIVE  
COMPARTMENTED INFORMATION

1. This memo confirms our telephone conversation of 24 November, 1959.
2. The negotiation was held at the contractor's premises on 23 and 24 November, after the contractor's representative had advised the auditor that the Contracting Officer had recommended reaching agreement with the auditor.
3. For the contractor: H. White, Finance  
 For the customer: R. Adair, Project Administrator, (23d only)  
 J. Williams, Project Auditor
4. The first item for discussion was the transfer to a new contract of \$10,000. included in the estimate to complete. The contractor's representative informed the auditor that it had requested Contracting Officer approval of this transfer. The negotiation then proceeded on that premise. The following total prices in all cases include profit.
5. (a) The contractor first offered a price of \$1,298,380, which reflected concurrence in questioned 1958 overhead and O&A in the amount of \$2,445. This left the area of difference to be 1959 overhead and O&A.  
 (b) The auditor had prepared two computations (not made available to the contractor's representatives). One included the rates which have been consistently used in audit reports, as in Schedule A attached to WPD-7770-59. The other computation utilized the rates negotiated for Contracts SP-1917 and SP-1918, (Engineering @ \$2.93 and O&A @ 76¢ per hr.) The respective results were \$1,294,213. and \$1,299,099.
6. At this point the auditor considered it expedient to suspend negotiations until the 24th to permit obtaining additional trend data from the AF Resident Office. As a result, it was found that in the last two months of 1957 and 1958, O&A increased an average of 44; and in 1958 Engineering increased \$.073.
7. When negotiation resumed on the 24th, the auditor offered \$1,296,000, using increased O&A only, @ \$.753, after application of the disallowance factor. The actual amount computed was \$1,295,400. (At this point, the possible increased engineering rate was withheld, to be used as necessary).
8. The contractor's counter-proposal was \$1,297,000.

Memorandum for the record (Cont'd)

9. (a) The auditor then computed engineering overhead at the average yearly increase in the last two months of each of the past three years ended 31 December 1958, which amounted to 2%; also at the 6% increase allowed in the October negotiation. This resulted in an increase of \$257 in the first instance and \$2,835 in the latter, or an average increase of \$1,546.

(b) Added to the computed \$1,295,400 in Para. 6(c), the total was \$1,296,946. Added to the auditor's first offer in the same paragraph, the total was \$1,297,546. Therefore the auditor accepted the contractor's counter offer of \$1,297,000.

10. In his computations, the auditor consistently applied profit at 9 $\frac{1}{2}$ %.

11. Approximately, the above negotiated amount <sup>reflects</sup> 1959 Engineering overhead at \$2.8925 and 1959 C&A at \$.753, both less than the rates negotiated for Contracts SP-1917 and SP-1918.

J. L. WILLIAMS  
Supervisory Auditor  
Western District  
Auditor General



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON 25, D. C.

*HAZEL*

DPD-7770-59

#568

REPLY TO:

Auditor General  
Comptroller, USAF  
Eastern District  
Liaison Office  
P.O. Box 8155, S.W. Station  
Washington, D. C.

13 November 1959

*File  
SP-1915  
Group Sec*

SUBJECT: Advisory Report on Price Redetermination Audit  
Lockheed Aircraft Corporation  
Burbank, California  
Contract No. SP-1915

TO : Contracting Officer

REFS : (a) DPD-7620-59  
(b) DPD-6692-59  
(c) DPD-6699-59

1. Purpose of Examination. An examination has been made of the historical and estimated costs included in the contractor's proposal for price redetermination of the subject contract. The examination was made to determine the accuracy of the historical costs and to furnish pertinent information related to costs estimated by the contractor.

2. Scope of Examination.

(a) Recorded Costs. Recorded costs of material and direct charges were examined by reference to purchase orders, paid invoices and receiving documents. Audit working papers on estimates to complete contracts SP-1913 and SP-1914, together with adjusting entries subsequent to November 1957, were scanned to ensure that no duplication of costs was made. Records were examined to verify the contractor's statement in Reference (c) regarding a commitment for which the contractor has requested approval for transfer to another contract. Direct labor costs were traced to labor distribution records, and, where applicable, compared with travel expense distribution. Information relative to overhead and C & A was obtained from the cognizant AF Resident Office.

Document No. 109  
Review of this document by CIA has  
determined that:

- ☐ CIA has no objection to release  
☒ It contains information of CIA  
interest that must remain  
classified at TS (S) G

☐ If released, it must be  
dated 25/6/81 by 008632

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(b) Estimated Costs to Complete. The contractor's commitments were traced to open purchase orders and disbursement records.

### 3. Results of the Examination.

(a) Recorded and Estimated Costs. The contractor proposes costs of \$1,201,720.78, consisting of \$1,191,070.78 incurred costs through 30 August 1959, and \$10,650.00 estimated. The contents of the proposal and the auditor's recommendations are summarized as follows:

	Proposed Costs	Auditor's Recommendations	
		Costs Accepted	Costs Questioned
Labor	\$ 629,143.32	\$ 629,143.32	
Overhead	363,057.78	358,365.05	\$4,692.73
Mat'l and D/C	114,155.89	114,155.89(1)	
C & A	95,363.79	90,266.13	5,097.66
Total Costs	<u>\$1,201,720.78</u>	<u>\$1,191,930.39</u>	<u>\$9,790.39(2)</u>

NOTE 1 - Subject to approval by the Contracting Officer of purchase order to Crucible Steel Co. which states, "not to exceed \$10,000." Shipments have been received from this company; however no billings have been rendered since inception, October 1958.

Note 2 - Explained in Schedule A.

(b) General. Tests of direct labor and travel expense disclosed instances where an employee's labor had been charged to a specific contract and his travel expenses during the same period to another contract. No action was taken here inasmuch as (a) the dollar amount did not warrant increasing the proposed contract amount and adjusting two other contracts, one of which, SP-1916, had already been negotiated; and (b) all are FPR types; and (c) all are project contracts. The auditor has recommended that the contractor tighten its controls in this area.

(c) Property. Audit of property requested in Reference (b) will be performed in the very near future. The contractor's representative informed the auditor that no residual inventory schedules will be submitted for Contract No. SP-1915, inasmuch as redundant material, if any, will be carried forward to Contract No. DK-3559.

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4. Discussion with the Contractor. Costs questioned were discussed with [redacted], Finance Representative, whose comments are outlined in the footnotes to Schedule A. Deviations from the approved accounting policy for the treatment of labor and travel expense were discussed with [redacted] Project Administrator, who informed the auditor that the necessary action would be initiated to prevent recurrence of this type of error.

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*W. F. Edwards*

W. F. EDWARDS  
Audit Liaison Officer  
Eastern District  
Auditor General

SCHEDULE ACONTRACTOR'S PROPOSED OVERHEAD AND C & A COSTS  
AND THE AUDITOR'S RECOMMENDATIONSCONTRACT NO. SP-1915

	<u>Per Contractor's Proposal</u>			<u>Per Auditor</u>			<u>Difference</u>
	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>	<u>Questioned</u>
<u>1958</u>							
Factory	163.5	\$3.7784	\$ 617.76	163.5	\$3.5577	\$ 581.68	\$ 36.08
Engineering	78327.8	2.7355	214,265.71	78327.8	2.7337	214,124.71	141.00
Total							\$ 177.08 (Note 1)
<u>1959</u>							
Factory	281.0	\$3.870	\$ 1,087.48	281.0	\$3.647	\$ 1,024.81	\$ 62.67
Engineering	46873.4	2.960	138,745.27	46873.4	2.865	134,292.29	4,452.98
Total							\$4,515.65 (Note 2)
Total Factory and Engineering O/H Questioned							\$4,692.73
<u>1958</u>							
C & A	78491.3	\$ .7169	\$ 56,270.41	78491.3	\$ .6880	\$ 54,002.01	\$2,268.40 (Note 1)
<u>1959</u>							
C & A	47154.4	.790	37,251.97	47154.4	.730	34,422.71	\$2,829.26 (Note 2)
Total C & A Expenses Questioned							\$5,097.66

Note 1 - The contractor erroneously used estimated 1958 rates. The auditor used the final negotiated 1958 rates. The contractor concurred in the questioned 1958 overhead and C&A costs.

Note 2 - The auditor used rates currently in use by the AF Resident office. The contractor's representative reserved opinion in this year.